

IRS e-file Updates for Tax Year 2005

Security and Unauthorized Access to Taxpayer Information

The security of taxpayer accounts and personal information is a top priority for the IRS. It is the responsibility of each Authorized IRS *e-file* Provider to have security systems in place to prevent unauthorized access to taxpayer accounts and personal information by third parties. The Gramm-Leach-Bliley Act, codified at 15 U.S.C. 6801-6827, includes rules applicable to Authorized IRS *e-file* Providers that are designed to ensure the security and privacy of taxpayer information. Violation of the provisions of the Gramm-Leach-Bliley Act and the implementing rules and regulations promulgated by the Federal Trade Commission, or violations of the non-disclosure rules contained in sections 6713 or 7216 or the regulations promulgated thereunder, are considered violations of revenue procedure 2005-60 and may subject an Authorized IRS *e-file* Provider to the sanctions provided in section 7 of this revenue procedure.

Revenue Procedure 2005-60

Revenue Procedure 2005-60, effective August 29, 2005, was published in the Internal Revenue Bulletin No. 2005-35, and is available on irs.gov. It combines the rules governing IRS *e-file* for (1) Form 1040 and 1040A, U.S. Individual Income Tax Return and Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents; contained in Publication 1345, Handbook for Authorized IRS *e-file* Providers of Individual Income Tax Returns; (2) Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return contained in Rev. Proc. 2001-9; and (3) the rules governing electronic filing for the Form 941, Employer's Quarterly Federal Tax Return contained in Rev. Proc. 99-39.

Revenue Procedure 2005-69 also governs IRS *e-file* for (1) Form 1120, U.S. Corporation Income Tax Return; (2) Form 1120S, U.S. Income Tax Return for an S Corporation; (3) Form 990, Return of Organization Exempt From Income Tax; and (4) Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as a Private Foundation.

The revenue procedure also advises Authorized IRS *e-file* Providers to have security systems in place to prevent unauthorized access to taxpayer accounts and personal information by third parties.

Record Keeping Requirements

EROs must retain and make available to the IRS upon request, until the end of the calendar year in which a return was filed, the following material at the business address from which the return was originated. An ERO may retain the required records at the business address of the Responsible Official during any period of time the office is closed.

- Copy of signed Form 8453, any supporting documents that are not included in the electronic return data.
- Copies of Forms W-2, W-2G, and 1099-R;
- Copy of signed IRS *e-file* consent to disclosure forms for taxpayers who signed using an electronic signature;
- Complete copy of the electronic portion of the return that can be readily and accurately converted into an electronic transmission that the IRS can process; and
- The acknowledgment file for IRS accepted returns.

Forms 8879 and 8878 must be available to the IRS in the same manner described above, for three years from the due date of the return or the IRS received date, whichever is later.

IRS e-file Application

The definition of a Large Taxpayer as shown in Publication 3112, *IRS e-file Application and Participation*, Rev. 11-04, is changed to read as shown below :

A Large Taxpayer is a business or other entity with assets of \$10 million or more, or a partnership with more than 100 partners, that originates the electronic submission of its own return(s). A Large Taxpayer continues to not be an Authorized IRS *e-file* Provider.

New PIN Error Reject Code

ERO and Transmitters must ensure that when their client chooses to use one of the electronic signature methods that the PIN Type Code, P, S, or O is present in the Authentication Record, if not the return will reject with the **new Error Reject Code 1155**.

EITC Qualifying Child Certification Test

For 2006, the IRS will continue testing a certification requirement for certain EITC taxpayers. The test will be the same size as previous tests – 25,000 taxpayers. However, the 2006 test will differ slightly from the 2005 test in that the IRS will not be conducting a sample from a single community. The sample for the 2006 test will be drawn randomly from across the nation. The focus for the 2006 test will be to improve the selection methodology which will allow the IRS to gain additional insight as it continues the certification evaluation process.

Notices for the 2006 test were mailed out in early October 2005 with additional reminders forwarded to taxpayers in November 2005. In addition to improving our selection methodology for the test, added enhancements to the telephone routing system will provide additional levels of service to taxpayers requesting assistance in completing certification forms.

As with earlier tests, the goal of the 2006 test is to evaluate the effect of a certification requirement both on the level of erroneous payments and participation by eligible taxpayers. As the IRS continues its evaluation of this test, it has no plans to impose a blanket qualifying child certification requirement until a thorough evaluation of the 2004, 2005 and 2006 tests are completed. The IRS is committed to actively engaging stakeholders through the testing process.

Form 8453, U.S. Individual Income Tax Declaration for an IRS e-file Return

Two Submission Processing Centers will process Tax Year 2005 Forms 8453. Andover will process Tax Year 2005 Forms 8453 for returns transmitted to Andover and Kansas City. Austin will process Tax Year 2005 Forms 8453 for returns transmitted to Austin, Fresno and Philadelphia. A return accepted with an electronic signature method (PIN) does not require submission of a Form 8453.

Acceptable attachments to Tax Year 2005 Form 8453, U.S. Individual Income Tax Declaration for an IRS *e-file* Return, include:

- Form 1098-C, *Contributions of Motor Vehicles, Boats, and Airplanes* (or acceptable documentation/required Donor Documentation)
- Form 3115, *Application for Change in Accounting Method*
- Form 3468, *Investment Credit, Historic Structure Certificate*
- Form 4136, *Credit for Federal Tax Paid on Fuels* (if certificate and/or reseller statement is required)
- Form 5713, *International Boycott Report*
- Form 8283, *Noncash Charitable Contributions, Section B Appraisal Summary*
- Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents*

- Form 8858, *Information Return of U.S. Persons With Respect To Foreign Disregarded Entities*
- Form 8864, *Biodiesel and Renewable Diesel Fuels Credit* (if certificate and/or reseller statement is required)
- Form 8885, *Health Coverage Tax Credit*

NOTE: Taxpayers required to file the above forms are not eligible to use a PIN signature method. Paper Document Indicator(s) must be entered in the appropriate field(s) of the Summary Record.

IRS e-file Signature Authorizations

Form 8879, *IRS e-file Signature Authorization*, and Form 8878, *IRS e-file Signature Authorization for Application for Extension of Time to File*, have been revised for Tax Year 2005 to include the Electronic Funds Withdrawal (EFW) consent language in Part II. When a taxpayer completes a Form 8879 or 8878 which includes the EFW statement, there is no need to provide them with a separate copy of the EFW language as you may have done in the past. Many software products are designed to include Form 8879 and/or Form 8878. Note that the EFW statement in Part II of Form 8878 does not apply to Form 9465 filers.

As a reminder, when applicable, Forms 8879 and 8878 must be completed and signed by the taxpayer before a tax return or application is transmitted, or released for transmission to IRS. **DO NOT SEND** Forms 8879 or 8878 to the IRS unless requested to do so. Retain these forms for your records either in hardcopy or electronically. Refer to Publication 1345, Handbook for Authorized e-file Providers of Individual Income Tax Returns, and Form 8879 and 8878 instructions for additional information.

PIN Presence Indicator (Acknowledgement File)

The PIN Presence Indicator (SEQ 0065) has been changed in the Acknowledgement File Record. The value for "No PIN Present" has been change to "9" (previous value was "0"). It is important to check the Acknowledgement File or other documentation received to determine if taxpayer PIN(s) was accepted by IRS. If value 9 is received, Form 8453 is required to be submitted to the IRS. Individual income tax returns are not considered complete unless signed by the taxpayer.

Self Select PIN/AGI

Electronic Return Originators should encourage their clients who choose to use the Self-Select PIN method but don't have their original prior year AGI on hand, to call the toll-free 1-800- 829-1040 line to obtain the AGI amount from the IRS. This will ensure that the e-file return is not rejected for a mismatch AGI entry.

ITIN Reminders

If a client presents an Individual Taxpayer Identification Number and a Form W-2 showing a Social Security Number, the tax return must be filed on paper. E-file rules do not permit an Electronic Return Originator to alter information on a wage document and mismatched taxpayer identification numbers will cause an e-filed return to reject.

In cases where a current year return has already been filed that excluded a spouse, or dependent who needs an ITIN, the taxpayer should complete Form 1040X, Amended U.S. Individual Income Tax Return, showing the ITIN applicant's information, and attach it to Form W-7. For more information about filing with ITINs, go to the Tax Professionals Corner at www.irs.gov.